

**REPORT OF THE AUDIT OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 26, 2003



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kent Knight, Todd County Judge/Executive
Honorable Keith Wells, Todd County Sheriff
Members of the Todd County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Todd County Sheriff's Settlement - 2002 Taxes as of August 26, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Todd County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 26, 2003

ROSS & COMPANY, PLLC
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
TODD COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

August 26, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Todd County Sheriff as of August 26, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$281,024 for the districts for 2002 taxes, retaining commissions of \$10,044 to operate the Sheriff's office. The Sheriff distributed taxes of \$270,835 to the districts for 2002 Taxes. Taxes of \$178 are due to the districts from the Sheriff and refunds of \$33 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the Todd County Sheriff's Settlement - 2002 Taxes as of August 26, 2003. This tax settlement is the responsibility of the Todd County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Todd County Sheriff's taxes charged, credited, and paid as of August 26, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kent Knight, Todd County Judge/Executive
Honorable Keith Wells, Todd County Sheriff
Members of the Todd County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Ross & Company". The signature is written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
October 29, 2003

TODD COUNTY
KEITH WELLS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

August 26, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Outgoing Sheriff	\$ 35,180	\$ 32,028	\$ 129,294	\$ 55,421
Franchise Corporation	10,761	8,038	35,762	
Penalties	<u>2,337</u>	<u>2,147</u>	<u>8,592</u>	<u>3,667</u>
Gross Chargeable to Sheriff	<u>\$ 48,278</u>	<u>\$ 42,213</u>	<u>\$ 173,648</u>	<u>\$ 59,088</u>
<u>Credits</u>				
Exonerations	\$ 93	\$ 87	\$ 343	\$ 143
Delinquents:				
Real Estate	5,686	4,991	20,960	8,706
Tangible Personal Property	169	123	350	519
Intangible Personal Property				5
Uncollected Franchise	<u>6</u>	<u>4</u>	<u>18</u>	
Total Credits	<u>\$ 5,954</u>	<u>\$ 5,205</u>	<u>\$ 21,671</u>	<u>\$ 9,373</u>
Taxes Collected	\$ 42,324	\$ 37,008	\$ 151,977	\$ 49,715
Less: Commissions *	<u>1,799</u>	<u>1,573</u>	<u>4,559</u>	<u>2,113</u>
Taxes Due	\$ 40,525	\$ 35,435	\$ 147,418	\$ 47,602
Taxes Paid	<u>40,502</u>	<u>35,443</u>	<u>147,413</u>	<u>47,477</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 23</u>	<u>\$ (8)</u>	<u>\$ 5</u>	<u>\$ 125</u>

*

and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

TODD COUNTY
 KEITH WELLS, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 August 26, 2003
 (Continued)

4.25% on \$ 129,047
 3% on \$ 151,977

** Special Taxing Districts:

Library District	\$	4
Health District		4
Extension District		6
Soil Conservation District		9
Mud River District		2
Pond River District		(27)
Flood Plains District		(6)
		<hr/>

Due Districts or (Refunds Due Sheriff)	\$	<u>(8)</u>
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The accompanying notes are an integral part of the financial statement.

TODD COUNTY
NOTES TO FINANCIAL STATEMENTS

August 26, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 26, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

TODD COUNTY
NOTES TO FINANCIAL STATEMENT
August 26, 2003
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 9, 2003 through April 25, 2003.

Note 4. Interest Income

The Todd County Sheriff earned \$348 as interest income on 2002 taxes. As of October 29, 2003, the Sheriff owes \$21 in interest to the school district and \$12 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Todd County Sheriff collected \$13,799 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Todd County Sheriff collected \$2,535 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

TODD COUNTY
KEITH WELLS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of August 26, 2003

Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned one deputy to perform all of the accounting functions of the office. We recommend that the Sheriff assign someone else to periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2) having deposits compared to the receipts ledger and bank statements; and 3) comparing checks to monthly tax reports.

Sheriff's Response:

None.

PRIOR YEAR FINDING:

The Former County Sheriff, Betty Orr, erroneously paid 10% add-on fees to the taxing districts. This has been corrected.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Todd County Sheriff's Settlement - 2002 Taxes as of August 26, 2003, and have issued our report thereon dated October 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Todd County Sheriff's Settlement - 2002 Taxes as of August 26, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Todd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
October 29, 2003

